

**Testimony of J. Wilt Wagner  
Vice Chairman, Reynolds Metals Company  
Before the United States House of Representatives  
Committee On Commerce Subcommittee on Energy and Power  
in Richmond, Virginia April 18, 1997  
on**

**Electric Utility Industry Restructuring**

I am Wilt Wagner, a Vice Chairman of Reynolds Metals Company. I appreciate the opportunity to speak to you today and commend the Committee for conducting field hearings on the critical issue of introducing competition in the electric industry. Reynolds Metals, as many of you know, is headquartered in Richmond, so we were very pleased when the Committee announced that it was one of the cities chosen for these hearings.

Reynolds is the world's third largest producer of aluminum, and its manufacturing operations require large amounts of low-cost, reliable power. Energy expenditures approach one third of the cost of producing primary aluminum and also represents a significant cost factor at many of our fabricating facilities. In 1996, we spent almost \$300 million for electricity to all our operations. Electricity is such an integral part of the cost equation for our smelters that the ability to buy low-cost electric power is essential to achieving profitable results. Today, industrial companies such as Reynolds must compete in global markets, and to remain competitive, we must expect all of our suppliers - including electric suppliers - to be competitive in their service, quality and pricing.

Consequently, Reynolds is extremely interested in the deregulation of the electric utility industry. We believe in the free market system and we believe that opening the

utility generation market to competition will bring about considerable benefits to the economy in general. This can only happen through open access for all consumers. Although the Federal Energy Regulatory Commission ordered wholesale competition in 1996 with its landmark Order 888, now is the time for all customers, wholesale and retail, to benefit from competition.

At Reynolds, we are confident that competition in the electric industry will lower prices. Our experience to date tells us this. In the Pacific Northwest, Reynolds achieved a rate reduction of sixteen percent from its historic supplier, Bonneville Power, when our power requirements were offered for competitive bidding. In New York State Reynolds is participating in an experimental retail wheeling pilot program which has resulted in annual savings of approximately \$150,000 on our total electricity bill at a can plant - and this experiment barely opens the door to competition.

Competition is not just about lower prices. We fully expect that a competitive market will bring about technological advances, a greater variety of services, stronger commitment to customer satisfaction and enhanced reliability just as it has in other industries after they were deregulated.

While we believe that many of the issues surrounding the restructuring of the electric industry are best left to the states, there is also a role for the federal government. Federal legislation is critical to ensure that all customers have the right to choose their electricity supplier by a date certain. The transition to a competitive environment should

be a short enough time period to give all customers the benefits of competition as quickly as possible, but long enough to allow states to get their house in order.

Federal legislation is also needed to ensure that there is uniformity between neighboring states so that open and fair competition exists. Without federal legislation there will be a “patchwork” of different state approaches that would inevitably, to some degree, constrain the development of an interstate market for the sale of electricity. We don’t think this is desirable.

The federal government should also have a role in preserving the reliability of the interstate transmission system, defining the structure of independent system operators and alleviating capacity constraints between markets. The FERC will be involved in these aspects, but we may need clarifications of the organic statutes, and we urge Congress to study such issues carefully.

Only Congress can assure a comprehensive approach to electricity restructuring and provide a consistent national framework to facilitate a smooth transition to a competitive market.

What will be the role of the states? States will be responsible for creating case-specific models for the orderly transition from a regulated industry to a competitive one. These models will provide the details of how the state will make this transition without compromising the reliability of the distribution system and without disadvantaging any

class of consumers - residentials, commercials or industrials. It will be each state's job to sort through the many and difficult issues dealing with stranded costs.

Reynolds Metals, as a major user of power, strongly supports competition in the electricity industry and we readily admit, we will benefit from restructuring. But we disagree with the critics of deregulation that only big industries will benefit. By lowering the price of products, manufacturers will be more competitive in a global market, bringing more jobs to the local economy. But not only that. Small users will also see a drop in their electricity rates, better service, and more innovative products being offered. Arguments that "universal service" will be threatened are not valid. Only generation will be open to competition. The transmission and distribution systems will continue to be regulated by the same federal and state agencies that are regulating them now.

Reynolds participates in the Virginia Committee For Fair Utility Rates, a group of about 20 industrials committed to cost based rates for electricity. Each member of the Virginia Committee joins in the quest for true competition in electricity rates to maintain their company's presence in Virginia and provide economic benefit to the surrounding communities.

Again, we appreciate the Committee's high interest, illustrated by this field hearing, in the opportunities and challenges of electricity industry deregulation. Moreover, we respect the search for consensus; but with as much as is at stake, consensus will not solve everything. At some point, decisive action will be required.

I thank the Committee for allowing me this time.